

Message Text

CONFIDENTIAL

PAGE 01 LIMA 08870 250001Z

60

ACTION ARA-06

INFO OCT-01 SS-14 ISO-00 L-01 EB-03 TRSE-00 COME-00 CIEP-01

NSC-05 NSCE-00 INR-05 SP-01 SSO-00 INRE-00 /037 W

----- 004839

O 242310Z OCT 75

FM AMEMBASSY LIMA

TO SECSTATE WASHDC IMMEDIATE 7364

C O N F I D E N T I A L LIMA 8870

LIMDIS

FOR ARA - WILLIAM ROGERS; L - MONROE LEIGH; EB - THOMAS ENDERS;
TREASURY - JOHN BUSHNELL; COMMERCE - DON ARRILL; CIEP - WAYNE
SHARPE

E.O. 11652: GDS

TAGS: EINV, EIND, PFOR, PE

SUBJ: MARCONA - THURSDAY NIGHT MEETING WITH COMPANY OFFICIALS

SUMMARY: WASHINGTON TEAM MET WITH MARCONA OFFICIALS FOLLOWING MEETING WITH COMMISSION TO REPORT RESULTS AND REVIEW STATE OF PLAY. FURTH EXPLAINED CERTAIN ACCOUNTING DISCREPANCIES, WHILE RE-EMPHASIZING THAT THEY DID NOT ACCEPT BOOK VALUE APPROACH TO COMPENSATION. HE INDICATED THAT \$100-MILLION CURRENT-VALUE FIGURE WAS MARCONA'S BOTTOM LINE AND AGREED TO FISHLOW'S RECOMMENDED APPROACH OF GOING BACK TO COMMISSION WITH EXPLANATION OF ALTERNATIVE EVALUATION APPROACHES CONTAINING ILLUSTRATIVE FIGURES IN THE \$120-MILLION RANGE, WHICH WOULD REPRESENT HELPFUL MOVEMENT FROM EARLIER MARCONA VALUATION PRESENTATIONS. END SUMMARY.

1. WASHINGTON TEAM MET WITH FURTH, BRADFIELD, HENRY EAST, AND LOCAL MARCONA ACCOUNTANT AT EMBSSY AT 9:30 P.M. OCT. 23 TO CONSIDER RESULTS OF LATE-AFTERNOON MEETING WITH DE LA PUENTE COMMISSION AND THEIR EXPERTS.

2. FISHLOW REVIEWED COMMISSION PRESENTATION (SEPTTEL) AND
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 LIMA 08870 250001Z

ASKED FURTH WHETHER THEIR FACTS WERE CORRECT. FURTH SAID

THAT HE DID NOT ACCEPT BOOK VALUE AS A FAIR BASIS FOR COMPENSATION, BUT NOTED THE FOLLOWING PROBLEMS WITH COMMISSION PRESENTATION.

(A) DECEMBER 31, 1974 IS IMPROPER BASIS, AND INCREASE IN ASSETS ON ORDER OF \$24 MILLION, INCLUDING CASH RESERVES AND ORE INVENTORIES, OCCURRED BETWEEN THEN AND EXPROPRIATION IN JULY.

(B) SOLES INVESTMENT CANNOT PROPERLY BE TRANSLATED INTO DOLLARS AT 38.7 RATE, SINCE MOST INVESTMENTS WERE MADE AT MUCH LOWER (PRE-1969) RATES.

(C) ARBITRARY EXCLUSION OF ASSETS UNDER ARTICLE 8 IS UNACCEPTABLE.

(
BL EXCLUSION OF DISPUTED TAXES FOR COMPENSATION IS

UNACCEPTABLE.

3. HENRY EAST SAID THAT GOP HAS TWO POSSIBLE LEGAL BASES FOR VALUATION OF ASSETS: (1) APPRAISAL BY EXPERTS AS PROVIDED FOR IN ARTICLE 10 OF 1952 CONTRACT, OR (2) GOING-CONCERN VALUE AS PROVIDED IN PERUVIAN LAW COVERING NATIONALIZATION OF MINING PROPERTIES. HE NOTED THAT DECREE LAW 19419, WHICH WAS CITED EARLIER BY COMMISSION AND WHICH PROVIDES FOR BOOK-VALUE STANDARD, APPLIES ONLY TO INDUSTRIAL SECTOR.

4. IN RESPONSE TO QUESTIONS, FURTH INDICATED THAT MARCONA'S BOTTOM-LINE FIGURE WAS \$100 MILLION LUMP SUM AND THAT HE HAD SIGNALLED THIS IN MEETING WITH GOP CABINET OFFICIALS. WHEN PRESSED FOR HIS BASIS FOR THIS FIGURE, FURTH SAID THIS WAS WHAT HE BELIEVED COULD BE OBTAINED FROM PERUVIANS, ADDING THAT FIGURES COULD BE ARRANGED TO JUSTIFY RESULT WITHIN A BROAD RANGE (LEFT UNSPECIFIED).

5. BRADFELD REFERRED EXTENSIVELY TO GREENE MISSION PRECEDENT, EMPHASIZING HIS VIEW THAT WE WERE IN A POLITICAL NEGOTIATION IN WHICH WE SHOULD BE PUTTING FORWARD HIGH FIGURES
CONFIDENTIAL

CONFIDENTIAL

PAGE 03 LIMA 08870 250001Z

FOR HORSE-TRADING PURPOSES.

6. WASHINGTON TEAM SUGGESTED THAT COMPARISON TO GREENE MISSION SITUATION WAS NOT FULLY VALID; USG MUST GO BACK WITH FIGURES THAT WE CAN FULLY JUSTIFY. WE EMPHASIZED NEED TO MAKE REASONABLE PRESENTATION ON BASIS OF ALTERNATE VALUATION PROCEDURES.

7. FISHLOW NOTED THAT MARCONA'S "GOING CONCERN" VALUATION (\$171 MILLION) MADE SOME HIGHLY FAVORABLE ASSUMPTIONS SUCH AS A DOUBLING OF THE RELATIVE PRICE OF IRON ORE, WHILE CONTAINING NO ELEMENT ACCOUNTING FOR HISTORICAL PROFIT EXPERIENCE, WHICH IS NORMALLY THE BASE FOR "GOING CONCERN" VALUATIONS. FURTH INDICATED THAT BECAUSE OF VARIOUS SPECIAL CIRCUMSTANCES HISTORICAL DATA WAS NOT USEFUL IN THIS INSTANCE, AND THAT THEY HAD MADE THE CALCULATION IN A MANNER CONSISTENT WITH PERUVIAN LAW.

8. FISHLOW GAVE HIS JUDGMENT THAT IN ORDER TO MAINTAIN WHATEVER MOMENTUM TOWARDS A SETTLEMENT WAS NOT BEING GENERATED, IT WAS ESSENTIAL THAT WE GO BACK TO THE COMMISSION WITH ILLUSTRATIVE APPROACHES WHICH WOULD YIELD FIGURES THAT WOULD SHOW SOME MOVEMENT IN THE DIRECTION OF NARROWING THE DIFFERENCES BETWEEN MARCONA AND GOP. HE SUGGESTED THAT IF WE COULD MAKE CONVINCING CASES ON BASES GOING-CONCERN AND REPLACEMENT CRITERIA THAT WERE ON ORDER OF MAGNITUDE OF \$120 MILLION, THIS WOULD BE USEFUL IN RAISING GOP'S SIGHTS AS WELL AS SUSTAINING A NEGOTIATING SITUATION.

9. BRADFIELD EXPRESSED SOME INITIAL RELUCTANCE TO AGREE TO GOING BELOW \$171-MILLION FIGURE AT THIS STAGE, BUT FURTH WAS MORE RECEPTIVE AND BOTH ULTIMATELY AGREED TO APPROACH THAT HAD BEEN OUTLINED.

10 FISHLOW SAID HE WOULD UNDERTAKE CALCULATIONS NECESSARY TO SUPPORT APPROACH ALONG LINES HE RECOMMENDED AND WOULD PRESENT RESULTS TO COMMISSION ON THE NEXT DAY. FURTHER, HE WOULD INFORM THEM OF THE KEY DISCREPANCIES IN THEIR PRESENTATION NOTED BY MARCONA.

11. COMMENT: MARCONA AGREEMENT TO ALTERNATE EVALUATION
CONFIDENTIAL

CONFIDENTIAL

PAGE 04 LIMA 08870 250001Z

PRESENTATION WITH ILLUSTRATIVE FIGURES THAT APPEAR AT LEAST SOMEWHAT FORTHCOMING WILL HOPEFULLY DEMONSTRATE THAT USG IS SERIOUS ABOUT A SOLUTION AND WILL ELICIT A COMPREHENSIVE REVIEW BY COMMISSION OF ITS POSITION. THE DIFFERENCES BETWEEN GOP AND MARCONA REMAIN VERY GREAT. BEFORE THE NEXT SESSION WE WILL REQUIRE OF MARCONA MORE ANALYSIS BASED ON ADDITIONAL DETAILED INFORMATION SO THAT WE ARE IN A BETTER POSITION TO KNOW WHAT CONSTITUTES A REASONABLE FIGURE AND HOW THAT FIGURE CAN BEST BE JUSTIFIED TO THE GOP. WITHOUT BETTER DATA, IT WILL BE DIFFICULT TO GET COMPENSATION IN RANGE DESIRED BY MARCONA.
DEAN

CONFIDENTIAL

NNN

Message Attributes

Automatic Decaptioning: Z
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: COMPENSATION, NATIONALIZATION, NEGOTIATIONS
Control Number: n/a
Copy: SINGLE
Draft Date: 24 OCT 1975
Decaption Date: 28 MAY 2004
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: GolinoFR
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975LIMA08870
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D750371-0355
From: LIMA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19751020/aaaaarwv.tel
Line Count: 166
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION ARA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: LIMDIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: LIMDIS
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: GolinoFR
Review Comment: n/a
Review Content Flags:
Review Date: 12 SEP 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <12 SEP 2003 by CunninFX>; APPROVED <20 OCT 2003 by GolinoFR>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: MARCONA - THURSDAY NIGHT MEETING WITH COMPANY OFFICIALS SUMMARY: WASHINGTON TEAM MET WITH MARCONA OFFICIALS FOL-
TAGS: EINV, EIND, PFOR, PE, US, MARCONA
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006